Firestone

1978 Annual Report

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On The Cover

Known for its quality products for 78 years, Firestone continues its commitment to excellence in its tires, its thousands of non-tire products and its service to customers.

Employees are shown on the cover as they check products during and after production to make sure that Firestone quality is maintained.

Left—The new wide Duplex truck wheel for radial tires is measured by an engineer during final testing at Firestone Steel Products Company.
Center—Tires remain the core of our business. Thousands of sizes and types are produced and marketed throughout the world. A service representative inspects tires on a mammoth coal hauler.
Right—At the Firestone Foam Products Company, an employee checks out rolls of carpet underlay before shipment.

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Reinvestment Service

The Dividend Reinvestment Plan offers stockholders a convenient and cost-free method of increasing investments in the Company.

By enrolling in the plan, stockholders may have their dividend checks automatically reinvested in Firestone common stock. Stockholders may also invest voluntary cash amounts with or without the automatic dividend reinvestment plan.

The service is managed by Morgan Guaranty Trust Company of New York for the benefit of participants. For further information or an authorization card, write to the Firestone Stock Transfer Department, Akron, Ohio 44317.

A copy of the annual report to the Securities and Exchange Commission on Form 10-K may be obtained after February 1, 1979, by writing: Stockholder Relations Department, The Firestone Tire & Rubber Company, Akron, Ohio 44317.

The Annual Meeting of Stockholders of The Firestone Tire & Rubber Company will be held on Saturday, January 27, 1979, at 9:30 A.M. Eastern Standard Time, at the Firestone Country Club, 452 East Warner Road, Akron, Ohio.

1978 Annual Report
The Firestone Tire & Rubber Company

1200 Firestone Parkway Akron, Ohio 44317

About Firestone

The Firestone Tire & Rubber Company's principal business is the development, production, distribution and sale of tires for all types of vehicles both in the United States and in countries around the world.

The Company is organized into four groups: North American Tire, International, Diversified Products, and Chemicals and Raw Materials. These groups manufacture a wide variety of products for industrial and consumer markets, including transportation, construction, agricultural equipment and home furnishings.

Although tires are its primary business, the Company also manufactures and markets 40,000 other products including rims and wheels for trucks, tractors and off-the-highway equipment; synthetic and natural rubber; polyurethane foam; vinyl resins and sheeting; metal and industrial rubber products; synthetic fibers; textiles and chemicals. With its 130,000 acres of rubber estates on three continents, Firestone is the largest natural rubber producer in the tire industry.

In the United States Firestone operates 15 tire and tube plants and 41 non-tire plants. Outside the United States the Company has manufacturing subsidiaries or associated factories in 25 foreign countries and markets its products in 135 countries.

Financial highlights

Dollars in millions, except per share amounts

	1978	1977	Percent change
Net sales	**$4,878.1**	$4,426.9	+ 10.2
Income before provisions for loss on phase-out of facilities and tire recall, net of income taxes	**72.1**	110.2	– 34.6
Net income (loss)	**(148.3)**	110.2	
Per share of common stock			
Income before provisions for loss on phase-out of facilities and tire recall, net of income taxes	**1.25**	1.92	– 34.9
Net income (loss)	**(2.58)**	1.92	
Cash dividends	**1.10**	1.10	—
Book value	**24.44**	28.12	– 13.1
Expenditures for properties, plants and equipment	**230.9**	204.9	+ 12.7
Depreciation	**176.4**	166.9	+ 5.7
Current ratio	**1.7 to 1**	2.0 to 1	
Stockholders' equity to long-term debt and capital lease obligations ratio	**2.1 to 1**	2.3 to 1	

Report To Stockholders

Our 1978 fiscal year was one of special problems and mixed results. Overall sales reached record highs for the 17th consecutive year, but operating earnings were substantially depressed and a net loss was reported.

Sales of $4.8 billion were up 10.2 percent over 1977. All operating groups—North American Tire, Diversified Products, International, Chemicals and Raw Materials—showed sales improvement.

Before provisions for loss on phase-out of facilities and tire recall and after income taxes, income amounted to $72 million or $1.25 a share. After providing for phase-out of facilities and tire recall write-offs, however, net loss was $148.3 million or $2.58 a share.

The dividend rate of $1.10 on the common stock was maintained for the year.

Four major factors affected 1978 earnings: a $110 million ($73 million after income taxes) write-off for tire production capacity realignments and the resultant phase-out of operations at affected plants; a $234 million ($147 million after income taxes) write-off for the recall of several million Steel Belted Radial 500 and other steel belted radial tires; sizable foreign currency exchange losses and extremely adverse tire marketing conditions throughout Europe which resulted in substantial losses there.

The write-off for the realignment of tire production capacity and the resultant phase-out of certain facilities was taken in the second quarter. The provision of $110 million ($73 million after income taxes) was established to cover the estimated costs of a plan to eliminate excess domestic bias passenger tire production and all tire production at plants in Calgary, Canada, and Pratteln, Switzerland.

As the full effects of capacity realignment and consequent manufacturing efficiencies are realized, the actions should have an increasingly positive effect on results.

Tire Recall

On November 29, 1978, we concluded negotiations with the National Highway Traffic Safety Administration (NHTSA) and agreed to a recall of several million Steel Belted Radial 500 and other tires of the same or similar construction.

We agreed to a voluntary settlement for one dominant reason: to strengthen public confidence in Firestone products and to help insure the future well-being of our Company. The widespread news coverage of the "500" controversy was causing many motorists to become concerned about the reliability of "500" tires. This concern was intensified by the extensive national news coverage generated by the Congressional and NHTSA hearings in Washington. The extent of such news coverage and the subsequent damage to the Company's reputation that resulted from the lack of balance and perspective with which it was sometimes presented could not reasonably have been anticipated by management.

As a result of these circumstances, we decided it was best to settle the matter, regardless of the legal merits of our position. We wanted to eliminate the concerns and reinforce the confidence of our customers with regard to Firestone products, and get the controversy behind us.

An additional objective of agreeing to the recall was to reassure our customers that we stand behind our products in a fair and equitable manner as we have done for 78 years. Plants are working at capacity to produce the tires needed to cover the recall.

Stockholders may obtain further information on the recall or a copy of the final agreement made with NHTSA by writing to the stockholder relations department.

We believe the new generation Steel Belted Radial 721 tire is the finest radial passenger car tire on the market. We are confident that its outstanding quality will continue to be recognized and the acceptance of our tires will continue to increase significantly among motorists as the result of their favorable experience with this tire.

Foreign Operations

Earnings were also adversely affected by foreign currency exchange losses, primarily in Europe. Foreign currency exchange losses under Financial Accounting Standards Board Statement 8 amounted to $34.9 million for the current year compared with $8.4 million in 1977. This year's higher losses stemmed primarily from the dollar's severe decline in value against most major foreign currencies.

The unsatisfactory tire market conditions in Europe are mainly due to overcapacity in the tire industry there which leads to deterioration of pricing and inability to recover costs completely. Foreign earnings from several other areas showed substantial improvement.

In 1978 we faced difficult problems and we responded to them forthrightly. We were able to do so because we had the financial strength and corporate resources necessary to cope with the unusual challenges that arose.

Litigation

The Company is defending a number of lawsuits of various kinds. Several of these purport to be class actions arising out of the Steel Belted Radial 500 matter. One alleged class action involves other matters as well as the 500. Further details can be found in Note 16 in Notes to the Financial Statements.

Capital Expenditures

Our capital expenditures reached $231 million for the year. This investment in new plants and expansions will increase our capability to handle future needs. Current operations are also productively benefiting from 1978 and other recent capital spending. Capital expenditures for 1979 are expected to be $250 million.

We announced a five-year $145 million expansion program for the Nashville, Tenn., radial truck tire plant, the largest dollar program ever undertaken at any Firestone facility.

Construction of the plastics resin plant in Baton Rouge, La., is scheduled for completion in 1979. It will enable us to increase our production capacity by 50 percent.

Expansions are also going forward at tire plants in Brazil, Venezuela and Thailand where market growth is strong.

Proposed Merger

The directors of Firestone and the Borg-Warner Corporation announced on November 28 that they had mutually agreed to consider a merger of the two companies.

The plan is subject to the approval of a definitive agreement by the boards and stockholders of both companies. It is expected to be considered at a special stockholders' meeting in the spring. Stockholders will receive necessary information and proxy material in advance.

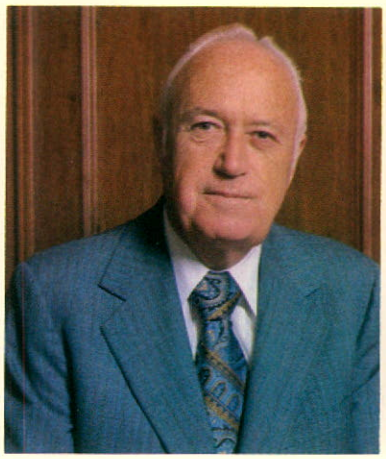
People

In addition to our financial strength, Firestone has many other strengths including our people—the competent, concerned, responsible and dedicated employees and dealers upon whom our success—past, present and future—is based. We are grateful for their support and the efforts of Firestone people everywhere who make our quality products, sell them competitively and treat our customers fairly. We are grateful, too, for the continuing loyalty of our stockholders and customers.

Board and Officer Changes

At the stockholders' meeting and the board of directors' meeting last January, William L. Strong who had been senior vice president, finance, was elected to the board of directors and was named executive vice president, finance. Leon R. Brodeur was named vice president, domestic and Canadian tire subsidiaries, and L. Edward May replaced Mr. Brodeur as vice president, diversified products group. William P. Bray was elected vice president, purchasing, and John H. Zimmerman was named vice president, employee relations, succeeding John T. Cahoon, vice president, personnel and planning, and Joseph V. Cairns, vice president, labor relations, who retired. Thomas E. Brewer was elected treasurer to succeed James M. Denny who resigned.

Edward F. Carter, a member of the board of directors and executive vice president, sales, resigned in January to become a major Firestone tire dealer.



Richard A. Riley, chairman.

Mario A. Di Federico, president.

Outlook

Our long-term future rests on a group of businesses with good earnings growth potential. Although some uncertainties cloud the immediate picture, we believe we can successfully meet challenges and overcome obstacles as we have been able to do for more than three quarters of a century.

Our human resources coupled with our strengths in marketing and technology should make 1979 a year of profitability and stable growth.

Richard A. Riley
Chairman

Mario Di Federico
President

December 18, 1978

People and Programs

Firestone operates in a changing world constantly affected by new technological, social, economic and political conditions. To live up to its responsibilities to customers, employees, stockholders and the public, the Company must continually adapt its products and operations, as well as its policies on social responsibility and its programs for people.

In 1978 special emphasis was directed to employees and job performance for only through its people and what they accomplish can a company grow.

A new group, Personnel Development, was formed to integrate the needs of employees with Company efforts to improve individual performance, increase productivity and add to operating efficiency.

Seminars, personal career counseling, special training and other informational programs were emphasized to help develop employees for positions of greater responsibility and to help them realize their full potential. A total of 3,726 Firestone men and women attended seminars and programs for such purposes during the year.

With its 30 sponsored companies, Firestone is one of the nation's top supporters of Junior Achievement. Company employees in 17 plant cities serve as advisors and help Achievers operate their own business enterprises.

Assisting the Personnel Development group is a training advisory committee, headed by a corporate vice president. The committee's function is to determine the best programs and methods of meeting the human resources development needs of the Company.

Jim McGee, manager of the Chicago sales district, one of the Company's largest, discusses sales plans with a store manager. With Firestone 14 years, McGee is responsible for 64 stores and hundreds of dealers in the midwest area.

In addition to these specific Personnel Development programs, other training programs were held for thousands of sales, production and administrative personnel around the world.

Through the Green Light program, started at the beginning of the year, employees were encouraged to become involved and to offer ideas and profit improvement innovations. Employees received approximately $500,000 for ideas adopted through the Suggestion System. Annual savings for such ideas that were implemented amounted to almost $3 million.

Equal Employment Opportunity programs and the related Affirmative Action Plans continued as an integral part of Firestone's operating philosophy. While total U.S. employment decreased 1.7 percent during the year, minority and female enrollment increased 2.6 and 2.7 percent, respectively. One of the Company's most

significant increases was recorded in the sales category where minority employment rose 37 percent and female employment by 68 percent.

In the technicians category, minorities increased by 32 percent and female enrollment by 12 percent. Women rose five percent in the skilled crafts group and 6.5 percent in the officials and managers group. In this latter category minority employment rose 1.6 percent.

The Employee Assistance Program was started in 1971 to help employees solve problems affecting work performance and to prevent the waste of human resources. It now reaches employees in 41 states and has assisted more than 3,500 employees or family members with alcohol, drug and related problems.

The measure of the program's success lies in the fact that the recovery rate for individuals involved has risen to 85 percent, with recognized personal and economic benefits to those involved and to the Company.

Firestone lends support to a wide variety of educational, community, social and youth projects. Through the Firestone Scholarship Program, 44 full college scholarships were awarded to sons and daughters of employees in 1978. During its 26-year existence, the program has awarded 876 scholarships valued at more than $4.6 million.

Company support of Junior Achievement, 4-H, FFA and Scouting was continued as well as National Alliance of Businessmen's programs of minority training, hiring and advancement.

Minority business enterprise was encouraged as all three of Firestone's major U.S. groups purchased services and materials from minority-owned businesses. Included in the purchasing from these businesses were raw materials, weigh systems, plastic and electrical parts, maintenance and delivery services.

Energy

After three years of the five-year energy conservation program, the Company has reached 80 percent of its goal, which is to reduce energy usage 20 percent as measured against a 1972 base. To date the program has saved more than $50 million in energy expenditures despite the fact that energy costs keep rising.

Environment

Protecting the environment in plant communities has long been one of Firestone's most important concerns.

Martha L. Nelson served in several top personnel posts before being named corporate personnel manager. Current assignments take her to plants and facilities across the country but she still devotes many hours to professional, educational and civic activities.

The new Baton Rouge, La., resin plant will come on stream next year and will have the most technically advanced environmental controls to meet all employee safety, air, water and solid waste management regulations. All domestic and foreign plant expansions or modernizations include proper controls as an integral part of the expansion program in order to make sure that Firestone facilities meet or exceed all applicable environmental standards.

During the past year one of the largest direct flame thermal incinerators ever put in service in the U.S. was installed at the Orange, Tex., Petrochemical Center. The unit removes air pollutants from the butadiene production process and is also equipped with heat recovery mechanisms designed to reduce energy requirements in butadiene manufacturing operations.

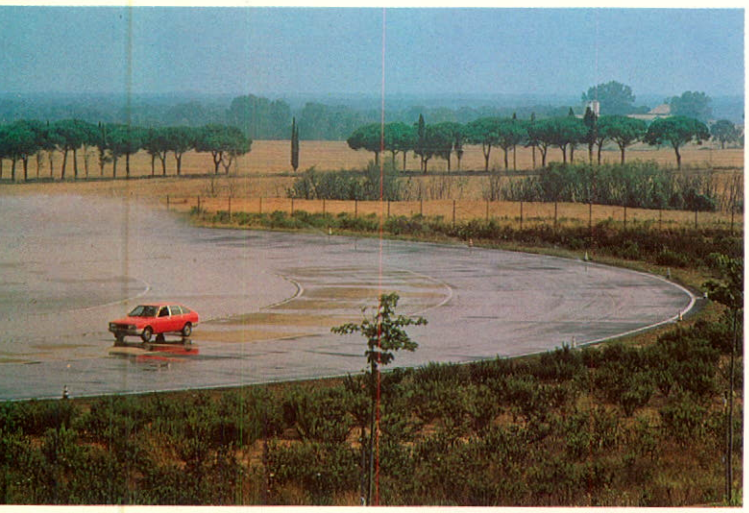
Research

Firestone's results-oriented research programs have brought into being a number of innovative products and materials for the future. Many are designed to conserve natural resources and to reduce motor vehicle weight in line with requirements of automobile manufacturers.

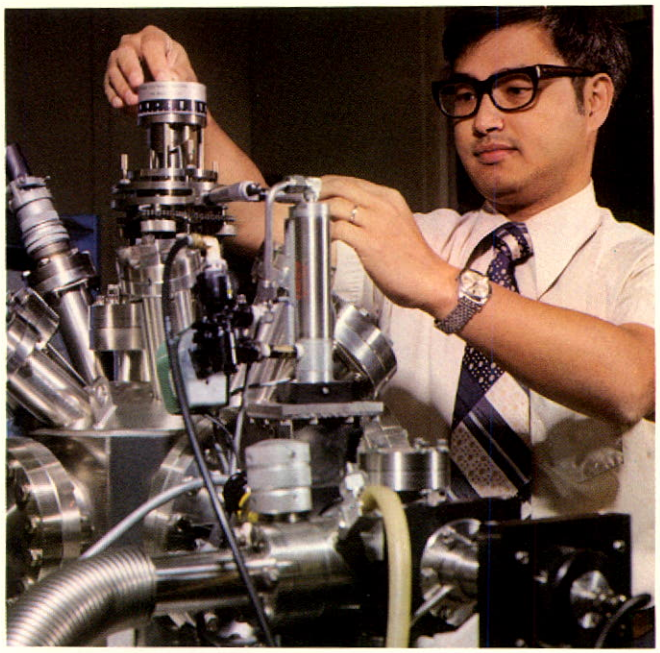
Currently undergoing severe evaluation and testing is a sturdy, plastic passenger car wheel—a new product for Firestone. While the Company has been a leader in truck wheel production for many years, innovative research into passenger car wheels has been under way in an effort to help reduce automobile weight and fuel consumption.

The light-weight, fiber-reinforced plastic wheel offers a 30-50 pound weight reduction on each car, better uniformity than metal wheels, improved riding quality and ease of styling which could eliminate use of wheel covers. The outlook for its eventual use on automobiles is promising.

As a result of earlier efforts, Firestone scientists are developing a new line of high-strength engineering resins which can be used in a variety of applications. Approximately 750 million pounds of such plastic resins were used in the United States in 1977. They are being produced in increasingly larger amounts for cars, business machines, appliances as well as for the electric and electronics markets replacing metal. Demand is expected to increase to 1.1 billion pounds, or 47 percent, by 1982.



More than 428 million tire test miles were completed by Firestone test drivers and commercial fleet operators around the world. Development and testing of new radial and other tire lines continued at the Europa Research and Development Center (above) as well as in Ohio and at the Company's major U.S. testing operation in Fort Stockton, Tex.



The long-established Firestone slogan, "Best Today, Still Better Tomorrow," has been a guiding precept at Firestone research and development laboratories since the first one was started in 1908. Research Scientist Dr. Wen-Shian Tzeng conducts studies to measure chemical structures of various materials used in Firestone products.

In addition to weight-saving advantages, engineering resin products reduce maintenance and noise levels, will not corrode and do not need lubrication.

Markets for PNF fluroelastomer rubber, which is in pilot plant production, are being developed in the automotive, industrial, biomedical and aerospace industries. This Firestone material continues to show commercial promise. The specialty, high-performance rubber is characterized by its excellent resistance to oils, fuels and chemicals, and can be used efficiently over a broad range of temperatures.

A team of scientists working with Natural Rubber & Latex division agronomists have started programs in guayule research. The guayule plant, which grows in semi-arid areas of the southwest United States and in Mexico, could provide a domestic source of natural rubber and ultimately supplement foreign natural rubber production.

The Natural Rubber division has set up a seedling nursery and has made initial guayule plantings at Fort Stockton, Tex.

Process and product research teams are also developing the technology needed to separate and recover the rubber from the plant as well as to compound and process guayule into tires and other rubber products. Progress in all aspects of guayule research is encouraging.

North American Tire Group

Overall sales of the North American Tire Group reached new highs in fiscal 1978. Major factors in achieving the record were the strong acceptance of the Steel Belted Radial 721 passenger car tire plus increased demand in the truck and construction equipment markets.

Earnings of the Group were adversely affected by the provision for phase-out of facilities, the controversy about the discontinued Steel Belted Radial 500 tire and the subsequent recall of several million "500" and other steel belted radial tires (discussed on page 2).

Marketing

Industry tire shipments to original equipment manufacturers were near record levels as domestic vehicle producers are expecting to turn out over nine million passenger cars and a record 3.4 million trucks during the calendar year.

Replacement sales for passenger car tires have picked up steadily since last spring and industry shipments should reach approximately 142 million for the calendar year.

For the second consecutive year, industry truck tire shipments reached new record highs with significant gains in the original equipment market, and replacement shipments up approximately 10 percent. Continuing strong sales patterns for all types of truck-bus tires are forecast through 1983.

A rebound in the agricultural economy in the last half of the year produced a 23 percent increase over the corresponding 1977 period in industry shipments of large farm tires to the replacement market. Industry shipments of giant off-the-road tires increased 18 percent as construction and mining activity remained at high levels.

Firestone continued as a major supplier of private brand tires to mass merchandisers, oil companies and independent marketers. This portion of our business has grown steadily, and forecasts indicate continued growth for private brand customers throughout the country.

New Products and Programs

The Company continued its long standing tradition of new developments and quality products with the introduction of the Steel Belted Radial 721 Fuel Fighter, a metric-sized, lower profile tire. This tire incorporates construction refinements which allow higher inflation pressures and provide 8 to 11 percent better fuel economy than bias or belted bias tires. The tire fits on a conventional wheel eliminating the need for special wheels for the gas-saving tire.

The Steel Belted Radial 721, the finest passenger tire the Company has ever produced, was introduced in metric sizes during the year. The low profile tire, called the "Fuel Fighter," has construction refinements which permit higher inflation pressures and reduce rolling resistance which results in significant fuel savings.

The Radial 721 and its metric counterpart have been readily accepted by car manufacturers as original equipment and by motorists in the replacement market. The 721 tire is recognized in the industry for its excellent uniformity and road performance.

With shipments of passenger tires increasing at slower rates as radial tires wear longer, Firestone has been strengthening its marketing efforts in areas that represent potential for superior growth and return on investment.

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For the past several years Firestone's lines of wide 50, 60 and 70 series performance tires have made substantial gains in popularity with owners of sports cars, customized trucks, vans and all types of recreational vehicles. To help promote the Company's line of "Super Stones" performance tires, three customized vehicles, equipped with the tires, appeared as special attractions at major auto shows and recreational vehicle events during the year.

The Company also improved its position in the truck tire market as it introduced the Transteel Power Drive Radial tire, a quiet running radial for drive wheels. The Trans/Sport tire, a bias tire, was marketed for recreational vehicles and light trucks, the fastest growing segment of the trucking industry.

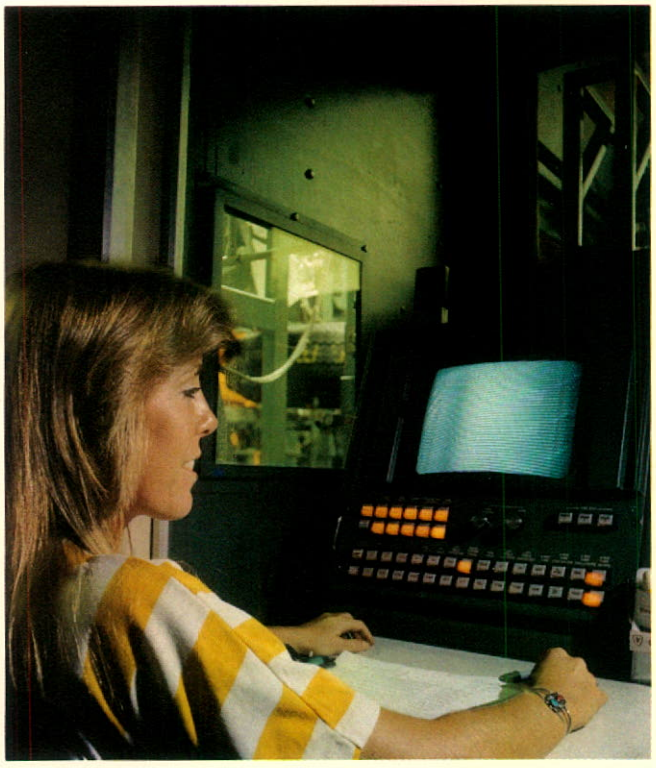
In the farm tire market, Firestone tires continued to set the quality standards as they have since 1932 when the Company introduced the first practical tractor tire. A new line of 23-degree radial rear tractor tires was put on the market after an extensive development and testing program.

A new customer service, the Firestone national credit card, was introduced. The card, a first for the tire industry, may be used in any of Firestone's 1,400 stores and service centers in the United States. Use of the credit card is facilitated by the computerized central credit operation. With advanced communications systems, the center permits rapid credit approval or changes in credit limits for new and existing accounts.

During the year James Stewart, well-known actor and Academy Award winner, began a three-year association with Firestone to appear as Company spokesman in a corporate advertising campaign on television. The campaign emphasizes the Company's 78-year history of leadership and innovation that has led to the development of such products as today's Steel Belted Radial 721 tire.

Manufacturing and Facilities

Management's ongoing assessment of tire markets and customers' increased preferences of radial tires led to a realignment of tire production facilities during the year. The move was made to reduce bias tire capacity in line with declining market demand. Bias passenger tire production was phased out at one Akron, Ohio, plant and production was terminated at the Calgary, Alta., Canada, plant. These actions will have a positive effect on the North American Tire Group's business as factory operating rates are improved.



Technician at the Nashville, Tenn., plant checks x-ray of Transteel Radial truck tire as it goes through the final test in the plant's quality control program. A total of 1,059 individual checks are made on tire components and the finished tires during and after production in Firestone plants.

To prepare for the increased demand for radial truck tires, the Company announced a $145 million expansion that will double radial truck tire production capacity by 1983 at the Nashville, Tenn., plant. This represents the largest expenditure ever made at one tire plant or for any tire facility in Firestone's history. Radial tires currently represent 13 percent of the total truck tire market but are expected to increase to 34 percent by 1983.

Other expansion programs for passenger car, farm and earthmover tires have started at plants in Albany, Ga., Bloomington, Ill., Des Moines, Iowa, and Memphis, Tenn., and for tubes at the Russellville, Ark., plant.

Eight giant Firestone Super Deep Tread Loader-Dozer tires equip this new concept in power modules. The Multi-Wheel unit, shown at a mine reclamation project, has four tires on each side for positive traction over all types of terrain.

The Company's Fort Stockton, Tex., test fleet of more than 100 cars and trucks completed nearly 10 million tire miles in around-the-clock testing programs. Other U.S. indoor and commercial fleet testing totaled 350 million tire test miles during the year.

Tire Divisions

The Dayton Tire & Rubber Company and The Seiberling Tire & Rubber Company continued as major suppliers of passenger, truck and mobile home tires under their own brand names as well as for private brand customers and independent distributors.

The Dayton division set sales records for the year and also initiated expansions to increase its production capacity for truck and recreational vehicle tires. At Seiberling, the product line and sales operations were streamlined to maintain and improve customer service.

Canada

Inflation and increased operating expenses produced disappointing results at Firestone Canada Inc. despite a strong sales year.

The termination of production at the Calgary plant was part of a positive plan to improve the subsidiary's position. In addition to consolidating production, Firestone Canada took steps to improve cost efficiencies at its tire plants in Hamilton and Whitby, Ont., and Joliette, Que.

International Group

Results of international operations varied from country to country, with sales and earnings up substantially in areas of Latin America, Africa and Southeast Asia.

Inflation, currency devaluations, increased costs and price controls adversely affected operations in several countries.

Losses continued in Europe where a stagnant economy and excess capacity in the tire industry continued to plague operations. In addition, low priced eastern European and other imports contributed to further deterioration of pricing in a highly competitive market.

In a move to help alleviate the situation, the Company realigned tire production at its

Quality service for customers remained a top priority for personnel at more than 1,600 Company stores and thousands of dealers throughout the United States and Canada. The traditional "F" in the shield continues to be the mark of quality in tires and car service.

European subsidiaries and terminated production at the Pratteln, Switzerland, plant. A Swiss sales subsidiary will continue to market Firestone tires there.

The International Group, with tire production and sales subsidiaries or associated factories in 36 countries, maintains a strong position in tire markets around the world.

Latin America

In the fast growing Latin American area, sales and earnings records were achieved. Improvements during the year stemmed from continued growth in motor vehicle registrations and the implementation of two major construction programs for which Firestone is the exclusive tire supplier.

Vehicle registrations of passenger cars, trucks and buses are forecast to grow approximately 40 percent by 1983 in Latin American countries where Firestone operates. Firestone's share of the market is expected to increase correspondingly. Planning ahead for this, the plants in Brazil, Costa Rica, Venezuela and the associated facility in Mexico have major expansions under way to increase production capacities.

During the year, the Venezuelan subsidiary was awarded an exclusive contract to supply tires and tire services for vehicles working on the final construction phase of the massive Guri Dam and hydroelectric project in northeast Venezuela. The Company is now sole supplier of tires for the two largest hydroelectric projects in the world as the Brazilian subsidiary continued supplying tires under its exclusive contract for the Itaipu Dam.

Africa, Asia, Far East

Record sales were also achieved in Kenya, South Africa and the Philippines as tire markets in these areas remained strong. Auto and truck registrations in Kenya and the Philippines are expected to grow approximately 40 percent in the next five years.

Firestone's market share in Thailand increased despite a temporary downturn in the economy in 1978. Economic growth is expected to rebound in 1979 and long-range forecasts indicate that vehicle registrations will expand more than 55 percent between now and 1983. A multi-million dollar expansion was started in Bangkok to enable the plant to meet the anticipated demand for tires.

Natural Rubber

As natural rubber consumption continued to outstrip production in 1978, the Natural Rubber division implemented its programs to increase output.

Plans for replanting and expansion programs in Liberia and Ghana will increase estates by 30,000 acres by 1992. With more than 130,000 acres in the two African countries, Brazil and the Philippines, Firestone is already the largest rubber producer in the tire industry.

The use of higher yielding clones in the expansion projects will result in production increases of as much as 50 percent on the new acreage. Firestone expects its total natural rubber production to double by 1992.

The division also started a seedling nursery and initial plantings of guayule at Fort Stockton, Tex. Guayule, a desert shrub which grows in the southwest United States and Mexico, has potential as a domestic source of natural rubber which could provide a limited supplement for natural rubber production elsewhere. The Company plans to have 2,000 acres of guayule under cultivation by 1983.

More than 300 vehicles working on two of the largest hydroelectric projects in the world are riding on Firestone tires. Subsidiaries in Brazil and Venezuela are the exclusive suppliers of tires and tire service for construction vehicles at the Itaipu and Guri Dams.

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Diversified Products Group

Strong product demand in nearly all of its primary markets provided the impetus for record sales and earnings for the Diversified Products Group.

Sales of wheels and rims for the trucking industry helped the Steel Products division achieve high sales and production levels during the year. At Electric Wheel Company, demand for wheels for the construction industry remained strong, and sales of agricultural equipment wheels improved substantially during the last quarter of the fiscal year, a trend which is expected to continue into 1979.

Manufacturing levels at the Industrial Products division increased in 1978 despite a strike at one plant and some reduction in demand for molded goods during the early part of the year. At Hamill Manufacturing seat belt production reached record levels.

The overall outlook for the Group is favorable because its principal markets—automotive, truck, agricultural and construction equipment—expect to maintain solid growth patterns. An annual 10 percent growth in sales is being forecast for the Group as its divisions expand their product lines and develop additional international markets.

Industrial products

Industrial Products continues to hold a strong position in the production and sale of air springs, automotive hose, molded and extruded products.

With a projected record of 3.4 million trucks produced in 1978, sales of air spring suspension systems used on heavy trucks reached new records. The extensive line of air springs puts the division in an excellent marketing position as demand for these products increases because of the weight and cost savings they provide.

In order to expand international sales, the division also started production of air springs in Brazil and England.

Steel Products

High quality product lines of truck wheels, rims, automotive metal stampings and rugged stainless steel containers brought record business to the Steel Products division.

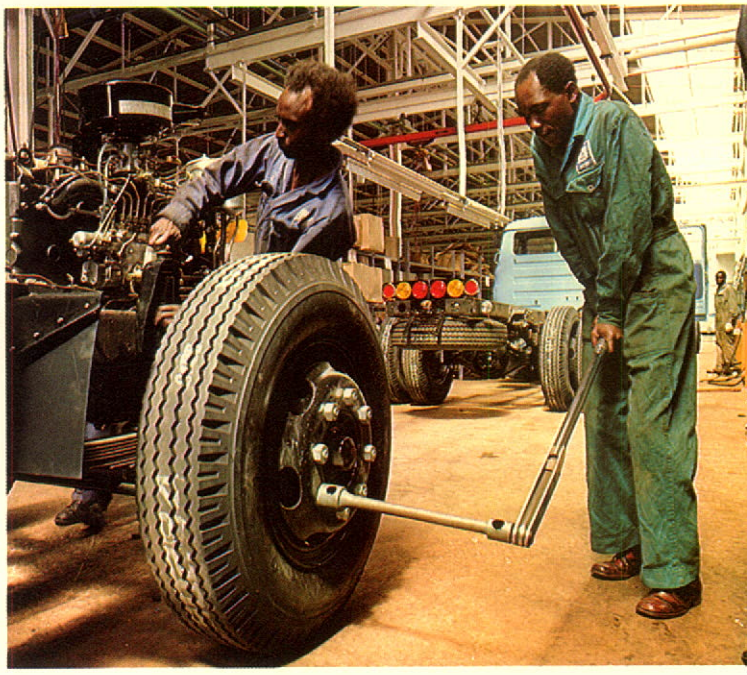
The division's wheel and rim plants worked at capacity and continue to have a substantial backlog of orders. The trend to straight side beer kegs also produced sales records in that line. The division is the major U.S. supplier of these beer barrels.

Strong sales of light trucks, the fastest growing segment of the truck market, increased demand for automotive stampings and for a new light truck wheel introduced by Steel Products during the year.

Electric Wheel

Despite some falloff in agricultural implement wheel sales during the first three quarters of the year, increased activity in coal mining and construction created heavy demand for Electric Wheel division's new 15-degree rims and other wheels and rims produced for this market.

An expansion program which will double production capacity of idler wheels used on construction equipment is under way at the Illinois plant and will be completed next year.



Firestone tires go on truck chassis at an assembly plant in Nairobi, Kenya. Firestone's subsidiary is a major tire supplier for original equipment and replacement markets in Kenya.

Traffic scene on major Bangkok thoroughfare. Vehicle registrations continue to grow in Thailand and are projected to increase over 55 percent by 1983.

Dart
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Hamill Manufacturing

In addition to its record seat belt production, Hamill Manufacturing continues work on an air bag development program. The division has been chosen as the major supplier of passenger-side air bags for two automobile manufacturers' 1981 models.

The latest injection molding equipment has been installed for production of the HELP energy absorbing bus bumpers. Firestone developed the innovative bumper and is the exclusive supplier to several bus manufacturers.

Chemicals and Raw Materials Group

Earnings of the Chemicals and Raw Materials Group were the highest since 1974 and sales reached a new record.

Particularly strong gains achieved in the Foam Products and Plastics divisions were helped by the sustained high rate of automobile production, continued strength in housing and other construction starts and increased sales of home furnishings, three of the divisions' major markets.

These two divisions plan to double their business over the next five years as demand for flexible urethane foam, polyvinyl chloride resins, film and sheeting continues to rise, and as new markets are developed.

Foam Products

With the sustained growth in housing starts, new homeowners are increasingly in the market for furniture, carpet cushioning and mattresses, segments of the foam business that were expanded this year.

Shipments from Foam Products plants reached record levels in line with strong industry demand for flexible foam which is expected to exceed 1.4 billion pounds this year. A growth rate of 14 percent annually is projected over the next five years.

Production capacity has been increased as a result of expansions at three foam plants, and two full service fabrication branches were opened to supply foam components and distribute specialty items for a wide variety of industrial applications.

A passive restraint system which meets 1982 Department of Transportation restraint standards has been developed and introduced by Hamill Manufacturing. It is being adapted for possible use on some 1981 model cars.

An 800,000-gallon Fabritank collapsible container provides water storage for an irrigation system in northern California. Fabritank containers have become the modern solution to large volume liquid storage.

Four Marsh Mellow rubber springs (one shown in inset) support this giant vehicle and its 100-ton payload. Use of the proprietary line of springs on giant trucks and earthmovers is growing because of performance, cost and weight efficiencies.

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Plastics Company

The Plastics division achieved record sales of FPC resins and film and sheeting products. The continuing growth in the Company's plastics business is a result of 30 years' experience in advanced technology, quality production and innovative marketing techniques for its polyvinyl chloride resins and film and sheeting products.

In addition to record sales to the housing industry, the Plastics division developed new applications for its resins including underbody automobile sealant for rust prevention, automotive decorative trim for lighter cars, rigid foam and moldings.

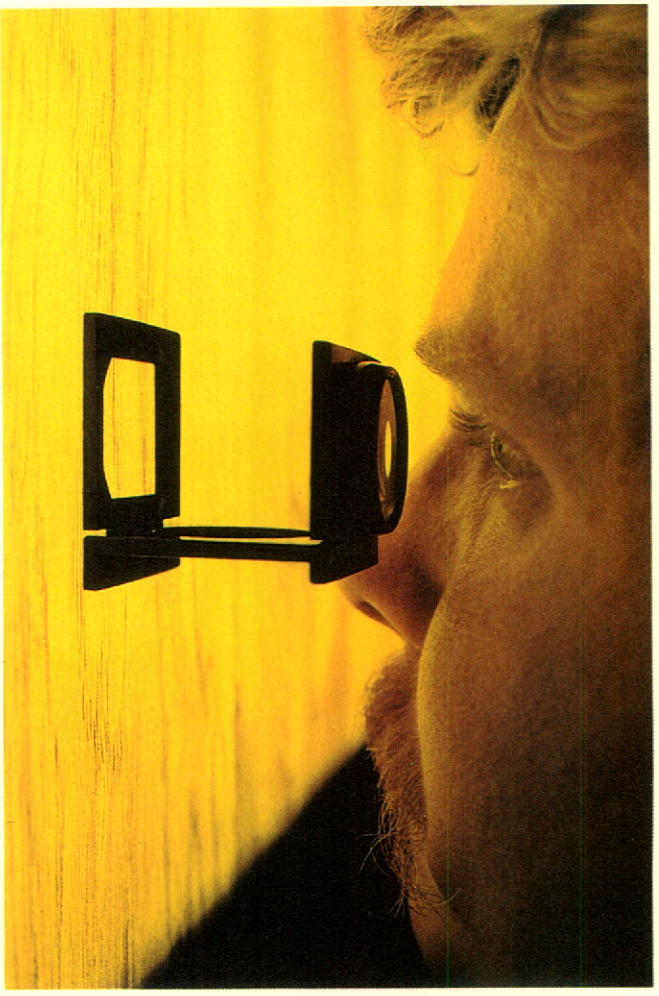
To keep up with the forecasted nine percent annual growth for PVC resins in the next five years, the division's new plant in Baton Rouge, La., is under construction and will start operations in late 1979. With this new facility, the division will increase its production capacity of PVC resins by 50 percent annually.

Synthetic Rubber

The Synthetic Rubber & Latex division established sales records for three product lines—Diene synthetic rubber, Stereon synthetic rubber copolymer and its latex products.

Sales of Diene to the high impact polystyrene market rebounded as the plastics markets firmed. A significant increase in sales of Stereon took place primarily in the plastics industry where the copolymer is used as an impact modifier.

The division increased its sales of latex used as a fiber binder in the carpet industry and as a cord adhesion product in the tire industry.



Treeline Woodgrain plastic sheeting is checked for color and printing quality at the Salisbury, Md., plant. Sales of the woodgrain sheeting used for furniture, electronic appliances and wall paneling reached all-time highs in 1978.

Spools of brass-plated 721 steelcord are ready for use in the production of the Steel Belted Radial 721 tires. The strong steelcord, produced at the Wire and Cable division, has seven steel filaments wrapped around two steel strands—with all nine bound by another.

Giant reactors, five stories tall, are in place at the new Baton Rouge, La., plastics resin plant. The plant, designed with the latest computerized, energy-efficient technology, will meet or exceed all employee safety and environmental regulations.

Fibers, Textiles, Wire

Synthetic Fibers division expanded its production of nylon resins as new markets were opened in the automotive, appliance, wire and cable, electronic and machinery industries.

Production at the Textiles and Wire and Cable divisions, which produce tire cord, steelcord and bead wire for Firestone tires, continued at high levels.

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Wilton L. Smith
Dallas E. Stiles
John B. Welsh
Assistant Controllers

Transfer Agents
Morgan Guaranty Trust Company of New York, New York, New York
The Firestone Tire & Rubber Company, Akron, Ohio

Registrars
Morgan Guaranty Trust Company of New York, New York, New York
The Firestone Bank, Akron, Ohio

Certified Public Accountants
Coopers & Lybrand, Cleveland, Ohio

Financial Section

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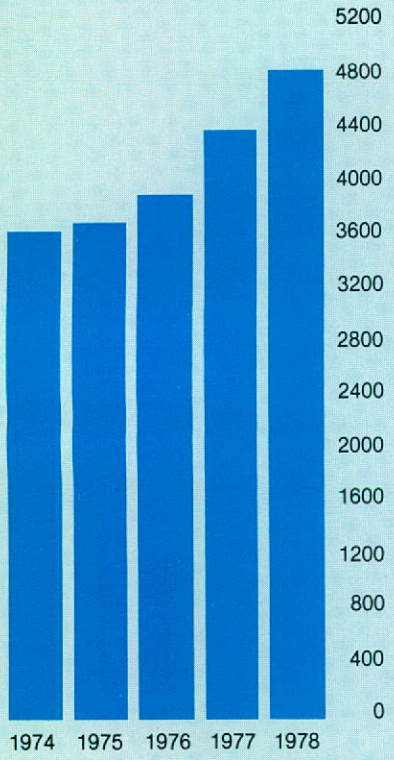
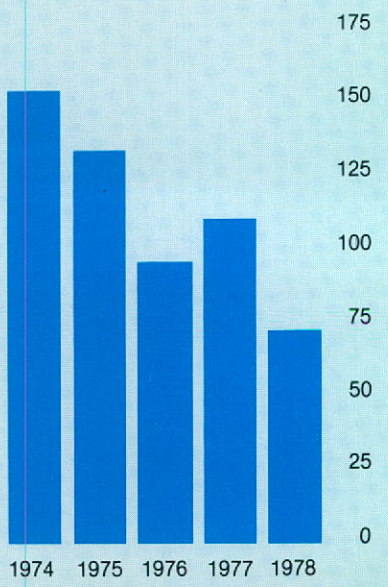
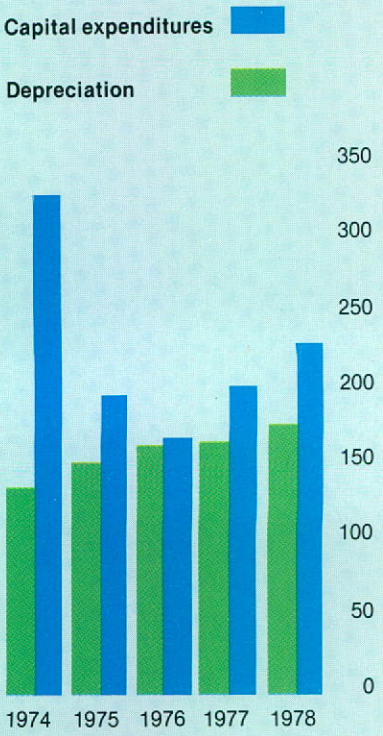
Net sales
(in millions)



Income
before provisions for loss on phase-out of facilities and tire recall, net of income taxes
(in millions)



Capital expenditures Depreciation
(in millions)



Five-Year Summary

Dollars in millions, except per share amounts
Shares in thousands

	1978	1977	1976	1975	1974
Summary of operations					
Net sales	**$ 4,878**	4,427	3,939	3,724	3,675
Gross profit	**$ 920**	892	797	815	841
Selling, administrative and general expenses	**$ 669**	610	562	537	524
Interest and debt expense	**$ 101**	89	78	77	64
Other income, net	**$ 23**	23	32	30	26
Provision for loss on Phase-out of facilities	**$ 110**	—	—	—	—
Tire recall	**$ 234**	—	—	—	—
Income taxes	**$ (27)**	103	90	95	118
Minority interests	**$ 4**	3	3	2	7
Net income (loss)	**$ (148)**	110	96	134	154
Net income (loss) as a percent of sales	**(3.0)%**	2.5%	2.4%	3.6%	4.2%
Cash dividends on common stock	**$ 63**	63	63	63	58
Average number of shares outstanding	**57,596**	57,509	57,250	57,020	56,891
Per share of common stock					
Net income (loss)*	**$ (2.58)**	1.92	1.68	2.36	2.71
Cash dividends	**$ 1.10**	1.10	1.10	1.10	1.025
Financial position at year end					
Working capital	**$ 793**	955	926	921	797
Current ratio	**1.7 to 1**	2.0 to 1	2.1 to 1	2.2 to 1	2.0 to 1
Stockholders' equity to long-term debt and capital lease obligations ratio	**2.1 to 1**	2.3 to 1	2.3 to 1	2.1 to 1	2.3 to 1
Total assets	**$ 3,486**	3,396	3,261	3,181	2,998
Net value of properties, plants and equipment	**$ 1,445**	1,423	1,387	1,393	1,347
Long-term debt and capital lease obligations	**$ 684**	690	678	720	633
Stockholders' equity	**$ 1,408**	1,618	1,568	1,529	1,453
Book value per share of common stock	**$ 24.44**	28.12	27.33	26.79	25.54
Other data					
Wages, salaries and employee benefits	**$ 1,581**	1,451	1,198	1,172	1,137
Research and development expenses	**$ 65**	60	53	52	51
Taxes deducted from income	**$ 185**	300	263	275	293
Properties, plants and equipment					
Expenditures	**$ 231**	205	170	200	330
Depreciation	**$ 176**	167	165	152	136
Shares outstanding at year end	**57,609**	57,542	57,373	57,062	56,907
Number of stockholders	**54,806**	48,754	47,910	49,778	50,337
Return on average stockholders' equity	**(9.8)%**	6.9%	6.2%	9.0%	11.0%
Number of employees	**112,000**	115,000	113,000	111,000	120,000

*Based on average number of shares outstanding during the year.

Management's discussion & analysis of the summary of operations

Year ended October 31, 1978

Net sales increased 10.2% over 1977 with all operating groups setting new sales records. Domestic and foreign sales were up 10.4% and 9.8% respectively. Demand for products of non-tire divisions was strong in most primary markets served— housing and automotive, truck, agricultural and construction equipment. Domestic tire unit shipments were up 7.5% over 1977 with the largest increases to original equipment manufacturers and private brand accounts. Price increases and higher foreign currency exchange rates accounted for the higher foreign sales.

Gross profit as a percent of sales declined to 18.8% from 20.1% in 1977. Contributing to this decline were the effects of the controversy and negative publicity concerning the discontinued Steel Belted Radial 500 tire on domestic and Canadian tire margins, and higher foreign currency exchange losses.

Selling, administrative and general expenses increased 9.7% over last year, but declined slightly as a percent of sales. Worldwide inflationary pressures on employee costs were the main impetus for the increase.

Higher foreign short-term borrowings to replenish and meet increased cash needs of subsidiaries (average amounts outstanding up 18.5%) and higher average interest rates on those loans (18.6% versus 16.5% in 1977) were the primary causes of the 13.7% increase in interest and debt expense.

Excluding the effects of provisions for loss on phase-out of facilities and tire recall, the effective income tax rate was 55.9% compared with 47.7% in 1977. Operating and foreign currency exchange losses in some foreign locations without a compensating tax benefit were the principal reasons for this year's higher effective income tax rate.

The net loss in 1978 was due to the provisions for loss on phase-out of facilities and tire recall. Excluding those provisions, income, net of income taxes, was $72.1 million compared with $110.2 million in 1977. The earnings decline was due to lower gross profit, higher selling, administrative and general and interest and debt expenses, and a higher effective income tax rate.

Year ended October 31, 1977

Net sales reached a new high in 1977, exceeding the 1976 record by 12.4%. Increases were achieved by all operating groups with the largest gains made by divisions selling to the domestic automotive industry. Domestic sales increased 14.8% due to price increases and higher volume of shipments by both tire and non-tire divisions. Domestic tire unit shipments increased 7.7% over 1976. Foreign sales increased 7.8% primarily due to higher prices.

Gross profit as a percent of sales decreased slightly from 1976 even though 1976 costs were adversely affected by the 131-day strike at eleven domestic tire and tube plants. Intensive competition in the United States and Europe, plus restrictive price controls in some foreign markets, were responsible for the decline as price increases realized for tires and products derived from petrochemicals were not sufficient to offset inflationary cost increases. Gross profit was also reduced by $8.4 million of foreign currency exchange losses, a $12.2 million increase over the $3.8 million of foreign currency exchange gains in 1976.

Interest and debt expense rose 13.6% in 1977 due to increased interest cost of foreign short-term loans. Average outstanding foreign short-term loans were 7.8% higher than in 1976 to meet increased cash needs of subsidiaries and the weighted average interest rate was 16.5% in 1977 compared with 12.8% in 1976.

Income taxes increased in 1977 due to improved domestic taxable income. Investment tax credit increased $3.9 million to $10.3 million.

Net income as a percent of sales improved slightly over 1976 as net income increased 14.8% on a sales gain of 12.4%, due entirely to domestic operations. This improvement was largely due to the sales increase while the total of interest, selling, administrative and general expenses as a percent of sales was reduced. Foreign net income declined $5.2 million, due primarily to poorer results from European operations.

Business segment information

The Company operates principally in three industry segments: tires and related products, chemical products and metal and industrial rubber products. Operations in the tires and related products industry segment involve the production and sale of new tires, tubes and retreaded tires; the sale of auto accessories, repair service and merchandise purchased for resale; and the production of natural rubber and latex, synthetic fibers, textiles and steel tire cord and cable consumed primarily in the production of tires. Operations in the chemical products industry segment involve the production and sale of vinyl resins, film and sheeting, polyurethane foam products and synthetic rubber and latex. Operations in the metal and industrial rubber products industry segment involve the production and sale of rims and wheels for trucks, tractors and off-the-highway equipment, metal stampings, stainless steel beer barrels, syrup and milk containers, seat belts, shoulder harnesses and retractors for passenger cars, automotive radiator hose, air springs, a variety of molded rubber products, semi-pneumatic tires, coated fabric products, tank tracks and various other defense products.

Transfers among the industry and geographic segments were generally at market prices. In determining operating profit for all segments, the following items have been excluded: corporate expenses and revenues, interest and debt expense, foreign currency exchange gains and losses, income taxes and minority interests.

Assets of industry and geographic segments represent those assets identified with the operations of each segment.

Export sales from the United States to unaffiliated customers and worldwide sales to any single customer were both less than 10% of net sales.

Industry segment operations—1978 compared with 1977

Tires and related products

Sales performance improved in 1978 as the previous 1977 record was exceeded by 9.2% on a tire unit shipment increase of 4.2%. Sales to original equipment manufacturers and private brand accounts showed the greatest growth on the domestic front. Market demand was robust in most Asian, African, and Latin American countries, while demand remained sluggish in Europe and Canada.

Operating profit did not match sales performance due mainly to provisions for loss on phase-out of facilities and tire recall totaling $344 million. Operating profit excluding these provisions was less than 1977, reflecting the Company's inability to obtain price increases to keep pace with cost increases. The controversy and negative publicity leading to the tire recall agreement, announced in November, 1978, also impacted operating profit in the United States and Canada. Adverse market conditions in Western Europe were compounded by low priced imports from Eastern Europe which led to further price deterioration, offsetting improvement realized through plant closure.

Raw material plant and plantation operations increased their contribution to operating profit in 1978 through efficient production of raw materials primarily for tire plants.

Chemical products

All divisions contributed to chemical products record sales in 1978, a 10.1% increase over 1977. Foam and Plastics benefited from higher rates of automobile production, continued strength in housing and other construction, and increased sales of home furnishings, three of their major markets. Synthetic Rubber & Latex sales were particularly strong in three product lines—Diene synthetic rubber, Stereon synthetic rubber copolymer and synthetic latex.

Operating profit increased 22.7% due to increased volume, price increases, and economies achieved through greater utilization of productive capacity and improved operating efficiencies.

Metal and industrial rubber products

Strong product demand in most markets provided the impetus for record sales in 1978, up 13.2% over 1977. Steel Products and Electric Wheel worked at capacity to meet demand from truck and construction equipment manufacturers for wheels and rims. Automobile production rates were high, leading to increased demand for seat belts, hose, and molded and extruded rubber parts produced by Hamill Manufacturing and Industrial Products. Sales of wheels for agricultural equipment were below 1977 due to low industry activity. Sales of tank tracks, metal stampings, beer barrels and beverage containers were up sharply in 1978.

Intense price competition in certain industrial rubber product markets and lower sales of wheels for agricultural equipment held the operating profit increase over 1977 to 7.1%.

Industry segment information

(dollars in millions)

Years ended October 31	Sales, including intersegment sales 1978	1977	Operating profit (loss) 1978	1977	Identifiable assets 1978	1977
Tires and related products	**$3,923**	$3,591	**$(152)**	$ 207	**$2,797**	$2,773
Chemical	**569**	517	**54**	44	**224**	191
Metal and industrial rubber	**617**	545	**75**	70	**269**	221
Elimination of intersegment items	**(231)**	(226)	**—**	(3)	**(10)**	(10)
Total	**$4,878**	$4,427	**$ (23)**	$ 318	**$3,280**	$3,175

	Capital expenditures 1978	1977	Depreciation 1978	1977
Tires and related products	**$ 164**	$ 167	**$ 146**	$ 142
Chemical	**46**	27	**18**	15
Metal and industrial rubber	**21**	11	**12**	10
Total	**$ 231**	$ 205	**$ 176**	$ 167

Geographic segment information

	Sales, including interarea 1978	1977	Operating profit (loss) 1978	1977	Identifiable assets 1978	1977
United States	**$3,350**	$3,038	**$ (89)**	$ 222	**$2,011**	$1,965
Latin America	**484**	425	**70**	55	**322**	303
Europe	**428**	419	**(40)**	(11)	**393**	378
Canada	**305**	303	**(16)**	2	**227**	242
Other	**490**	433	**52**	50	**329**	289
Elimination of interarea items	**(179)**	(191)	**—**	—	**(2)**	(2)
Total	**$4,878**	$4,427	**$ (23)**	$ 318	**$3,280**	$3,175

Intersegment sales were primarily sales of synthetic rubber to the tires and related products segment by the chemical segment, $221 in 1978 and $215 in 1977. Interarea sales were made in 1978 and 1977 by United States, $58 and $56; Europe, $7 and $24; Canada, $17 and $21; and Other, $97 and $90.

The difference between total assets and identifiable assets by segments was $206 in 1978 and $221 in 1977 and represented corporate assets, principally cash, short-term investments and investments at cost or equity.

Operating profit (loss) by segment reconciled to income before income taxes and minority interests follows:

	1978	1977
Operating profit (loss)	**$ (23)**	$ 318
Corporate expenses and revenues	**(13)**	(5)
Interest and debt expense	**(101)**	(89)
Foreign currency exchange losses	**(35)**	(8)
Income (loss) before income taxes and minority interests	**$ (172)**	$ 216

Provisions for loss on phase-out of facilities and tire recall are included in 1978 operating loss as follows: United States—$303; Europe—$27; Canada—$14; Total, tires and related products—$344.

The Firestone Tire & Rubber Company and Consolidated Subsidiaries

Statements of Income

FOR THE YEARS ENDED OCTOBER 31 Dollars in millions, except per share amounts	1978	1977
Net sales	**$4,878.1**	$4,426.9
Cost of goods sold	**3,958.7**	3,535.0
Selling, administrative and general expenses	**669.5**	610.3
Interest and debt expense (Notes 6, 7 and 8)	**100.6**	88.5
Other income, net	**(23.0)**	(22.7)
	4,705.8	4,211.1
Income before provisions for loss on phase-out of facilities and tire recall, income taxes and minority interests	**172.3**	215.8
Provision for loss on—phase-out of facilities (Note 14)	**110.0**	—
—tire recall (Note 15)	**234.0**	—
Income (loss) before income taxes and minority interests	**(171.7)**	215.8
Domestic and foreign income taxes, including credits in 1978 applicable to provisions for loss on phase-out of facilities ($37.0) and tire recall ($86.6) (Notes 1, 3 and 6)	**(27.2)**	102.9
Minority interests in income of subsidiary companies (Note 10)	**3.8**	2.7
Net income (loss)	**$ (148.3)**	$ 110.2
Net income (loss) per share of common stock*	**$ (2.58)**	$ 1.92

*Based on average number of shares outstanding during the year.

The accompanying notes are an integral part of the financial statements.

The Firestone Tire & Rubber Company and Consolidated Subsidiaries

Statements of Changes in Financial Position

FOR THE YEARS ENDED OCTOBER 31 Dollars in millions	1978	1977
Sources of working capital		
Net income (loss)	**$(148.3)**	$ 110.2
Charges (credits) to net income not affecting working capital:		
Depreciation	**176.4**	166.9
Non-current provision for loss on phase-out of facilities	**77.6**	—
Deferred income taxes	**(11.9)**	8.4
Total from operations	**93.8**	285.5
Long-term debt and capital lease obligations incurred	**75.5**	94.6
Issuance of preferred stock by Canadian subsidiary (Note 10)	**34.4**	—
Other	**10.1**	(.7)
Total sources of working capital	**213.8**	379.4
Uses of working capital		
Expenditures for properties, plants and equipment	**230.9**	204.9
Reduction of long-term debt and capital lease obligations	**81.7**	82.4
Payment of cash dividends	**63.4**	63.3
Total uses of working capital	**376.0**	350.6
Increase (decrease) in working capital	**(162.2)**	28.8
Working capital at beginning of year	**954.7**	925.9
Working capital at end of year	**$ 792.5**	$ 954.7
Changes in working capital		
Increase (decrease) in current assets		
Cash and short-term investments	**$ (58.6)**	$(110.0)
Receivables	**166.8**	110.7
Inventories	**(49.1)**	94.4
Prepaid expenses	**(1.2)**	.3
	57.9	95.4
Increase (decrease) in current liabilities		
Short-term loans	**(.1)**	43.3
Accounts payable	**17.0**	4.5
Accrued compensation	**9.8**	14.5
Domestic and foreign taxes	**(51.0)**	9.9
Provision for loss on tire recall	**227.2**	—
Long-term debt due within one year	**(9.4)**	(11.1)
Other accrued liabilities	**26.6**	5.5
	220.1	66.6
Increase (decrease) in working capital	**$(162.2)**	$ 28.8

The accompanying notes are an integral part of the financial statements.

The Firestone Tire & Rubber Company and Consolidated Subsidiaries

Balance Sheets

ASSETS Dollars in millions, except per share amounts	October 31 1978	 1977
Current assets		
Cash	**$ 26.7**	$ 43.3
Time deposits and certificates of deposit (Note 4)	**103.4**	123.0
Short-term investments (Note 1)	**27.1**	49.5
	157.2	215.8
Accounts and notes receivable, less allowance for doubtful accounts: 1978—$9.8; 1977—$9.8	**959.8**	793.0
Inventories (Notes 1 and 5)		
Raw materials and supplies	**213.3**	233.2
Work in process	**73.2**	70.6
Finished goods	**531.6**	563.4
	818.1	867.2
Prepaid expenses	**13.0**	14.2
Total current assets	**1,948.1**	1,890.2
Properties, plants and equipment, at cost (Note 9)		
Land and improvements	**122.5**	113.4
Buildings and building fixtures	**637.3**	625.1
Machinery and equipment	**2,077.7**	1,991.8
	2,837.5	2,730.3
Less accumulated depreciation (Note 1)	**1,392.6**	1,307.8
	1,444.9	1,422.5
Other assets		
Investments, at cost or equity	**55.2**	44.7
Miscellaneous assets	**25.6**	22.8
Deferred charges (Note 1)	**12.6**	15.5
	93.4	83.0
Total assets	**$3,486.4**	$3,395.7

The accompanying notes are an integral part of the financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	October 31 1978	1977
Current liabilities		
Short-term loans (Note 7)	**$ 215.5**	$ 215.6
Accounts payable, principally trade (Note 9)	**300.8**	283.8
Accrued compensation	**141.3**	131.5
Domestic and foreign taxes (Note 3)	**128.0**	179.0
Accrued liability for tire recall (Note 15)	**227.2**	—
Long-term debt due within one year	**14.2**	23.6
Other accrued liabilities	**128.6**	102.0
Total current liabilities	**1,155.6**	935.5
Accrued liability for phase-out of facilities—non-current (Note 14)	**53.4**	—
Long-term debt (Note 8)	**616.1**	616.1
Long-term capital lease obligations (Note 9)	**68.0**	74.2
Deferred income taxes (Notes 1 and 3)	**94.8**	106.7
Minority interests in subsidiary companies (Note 10)	**90.7**	45.1
Commitments and contingent liabilities (Notes 9 and 16)		
Stockholders' equity		
Serial preferred stock (cumulative), $1 par value, voting, authorized 10,000,000 shares, none issued		
Common stock, without par value, authorized 120,000,000 shares, shares issued: 1978—60,090,127; 1977—60,082,377 (Notes 8 and 13)	**62.6**	62.6
Additional paid-in capital	**194.7**	195.1
Reinvested earnings	**1,210.5**	1,422.2
	1,467.8	1,679.9
Less common stock in treasury	**60.0**	61.8
Total stockholders' equity	**1,407.8**	1,618.1
Total liabilities and stockholders' equity	**$3,486.4**	$3,395.7

The Firestone Tire & Rubber Company and Consolidated Subsidiaries

Statements of Stockholders' Equity

Dollars in millions, except per share amounts

Common stock shares			Common	Additional paid-in	Reinvested	Treasury stock,
Issued	In treasury		stock	capital	earnings	at cost
59,977,813	(2,604,642)	At October 31, 1976	$62.5	$193.9	$1,375.3	$(63.7)
		Net income for 1977			110.2	
		Cash dividends paid, $1.10 per share			(63.3)	
104,564		Exercise of stock options	.1	1.6		
	64,446	Issuance of treasury stock		(.4)		1.9
60,082,377	(2,540,196)	At October 31, 1977	62.6	195.1	1,422.2	(61.8)
		Net loss for 1978			(148.3)	
		Cash dividends paid, $1.10 per share			(63.4)	
7,750		Exercise of stock options	—	.1		
	59,204	Issuance of treasury stock		(.8)		1.8
		Issuance of foreign subsidiary stock to the public		.3		
60,090,127	(2,480,992)	At October 31,1978	$62.6	$194.7	$1,210.5	$(60.0)

The accompanying notes are an integral part of the financial statements.

Notes to financial statements

Dollars in millions, except per share amounts

1. Significant accounting policies

The significant accounting policies followed in preparation of the accompanying consolidated financial statements are summarized below. These policies conform to generally accepted accounting principles and have been consistently applied. Certain amounts for 1977 have been reclassified to conform to the 1978 presentation.

Basis of consolidation—The consolidated financial statements include the accounts of the Company and all majority-owned subsidiaries, except a wholly-owned subsidiary, Firestone Credit Corporation, which is included on the equity basis. All significant intercompany transactions have been eliminated.

Foreign currencies—Foreign currency amounts are translated into United States dollars, in accordance with Financial Accounting Standards Board Statement No. 8, generally at remittance exchange rates, as follows: inventories, prepaid and deferred items, properties, plants and equipment and related cost of goods sold, amortization and depreciation— rates in effect at acquisition dates; all other assets and liabilities—rates in effect at the end of the year; income and all other expenses— rates in effect at the end of each month. Foreign currency exchange gains and losses are included in the determination of net income.

Short-term investments—Short-term investments, principally commercial notes and United States treasury notes and bills, are carried at cost, which approximates market value.

Inventories—Inventories are valued at the lower of cost or market. Cost for substantially all domestic inventories (approximately 54% of consolidated inventories at October 31, 1978), is determined by use of the LIFO method. The average cost method is used for all other inventories.

Depreciation—Depreciation for financial reporting purposes is computed principally by use of the straight-line method, based upon the estimated useful lives of assets.

Renewals and betterments which extend the useful life of properties are capitalized and maintenance and repairs are expensed. Except for assets which are depreciated by use of the composite straight-line method, costs and accumulated depreciation related to assets retired or otherwise disposed of are removed from the accounts and any resulting gain or loss is included in the determination of net income. Machinery and equipment and furniture and fixtures acquired by the parent company since November 1, 1962, are depreciated by use of the composite straight- line method. When such assets are retired or otherwise disposed of, the cost is charged against accumulated depreciation and any proceeds from the disposition are credited thereto. No gain or loss is recognized in the accounts for such dispositions. The wide range of rates and the numerous classes of depreciable assets make a summary of rates impractical.

Deferred debt expense—Debt expense included in deferred charges is amortized ratably over the lives of the related debt issues based upon the maximum annual retirements required by the sinking fund provisions of the indentures.

Income taxes—Income taxes are reflected based upon taxable income for financial reporting purposes. Deferred income taxes arise from timing differences in the recognition of income and expense for tax purposes.

United States federal income tax investment credit is accounted for as a reduction in the provision for income taxes in the year in which the credit arises.

2. Foreign operations

Net sales by foreign operations were $1585.7 million in 1978 and $1444.7 million in 1977 and net loss was $38.3 million in 1978 compared with net income of $26.5 million in 1977. The consolidated balance sheets include net assets in foreign countries of $593.1 million and $604.4 million at October 31, 1978 and 1977, of which net current assets were $240.6 million and $214.5 million, respectively. Accumulated undistributed earnings of foreign subsidiaries amounted to $207.8 million and $290.5 million at October 31, 1978 and 1977, respectively, for which, with minor exceptions, no provision for foreign withholding or United States federal income taxes is necessary because these earnings have been reinvested in properties, plants, equipment and working capital.

Foreign currency exchange losses amounted to $34.9 million in 1978 and $8.4 million in 1977. These losses resulted from translation of foreign subsidiary balance sheet items, conversion of foreign currencies and translation of domestic debt denominated in foreign currencies.

Foreign currency exchange losses in 1978 arose principally from translation of net liability positions in foreign currencies which rose in

value relative to the U.S. dollar, primarily the Swiss franc, French franc, British pound and German mark. The decline of the dollar against foreign currencies accelerated late in 1978, reaching a low point at October 31, resulting in fourth quarter foreign currency exchange losses of $15.1 million.

Additional losses due to currency fluctuations approximated $7 million in 1978 and $21 million in 1977 resulting from charging inventories to cost of goods sold at historical exchange rates rather than at the rates in effect at the time of sale.

3. Taxes

	1978	1977
Income taxes		
Current:		
Federal, including investment tax credit of $10.2 in 1978 and $10.3 in 1977	$ (61.5)	$ 48.6
Foreign	43.7	39.7
State	2.5	6.2
Deferred (Includes foreign credit of $1.7 in 1977)	(11.9)	8.4
Total income taxes	(27.2)	102.9
Social security	104.5	91.6
Property and miscellaneous	108.1	105.6
	$185.4	$300.1

The effective income tax rate was (15.8)% for 1978 and 47.7% for 1977. The difference between this rate and the statutory United States federal income tax rate of 48% resulted from:

	1978	1977
Investment tax credit	6.0%	4.8%
Income taxes applicable to foreign income at effective rate (greater) less than 48%	(5.6)	5.4
Foreign losses with no tax benefit	(32.2)	(8.9)
State and local taxes	(.8)	(1.5)
Other	.4	.5
	(32.2)%	.3%

Deferred income taxes at October 31, 1978, resulted principally from the use of accelerated depreciation methods for income tax purposes in the United States and certain foreign countries. The United States tax benefit accumulated under the installment sales method of accounting for tax purposes amounted to $39.6 million and $39.5 million at October 31, 1978 and 1977, respectively, and is included in the current liability for domestic and foreign taxes.

4. Restricted deposits

Time deposits and certificates of deposit included restricted amounts of $28.2 million and $28.8 million at October 31, 1978 and 1977, respectively, representing principally foreign subsidiaries' import deposits for periods up to one year.

5. Inventories

If the average cost method of inventory valuation had been used for inventories valued using the LIFO method, inventories would have been $255.7 million and $225.9 million higher at October 31, 1978 and 1977, respectively. Net loss for the quarter and the year ended October 31, 1978 was decreased by approximately $4.5 million ($.08 per share) due to partial liquidation of inventories valued using the LIFO method.

Inventories used in the computation of cost of goods sold were as follows:

October 31, 1978	$818.1
October 31, 1977	867.2
October 31, 1976	772.8

6. Firestone Credit Corporation

Firestone Credit Corporation (FCC) purchases without recourse certain of the Company's customer accounts receivable, financing such purchases when required by the issuance of short-term commercial paper. At both October 31, 1978 and 1977, FCC had net accounts receivable of $21.9 million, and there was no commercial paper outstanding during either year. In the statements of income, income before income taxes of FCC is included as a reduction of interest and debt expense, and the income taxes thereon are included in domestic and foreign income taxes.

7. Short-term loans

At October 31, 1978 and 1977, the Company had available under bank credit arrangements in the United States and foreign countries unused credit and overdraft lines amounting to $612.5 million and $359.7 million, respectively.

The 1978 amount includes a new credit agreement dated October 31, 1978, with a group of fourteen United States banks headed by Chase Manhattan Bank N.A. and Cleveland Trust Co. The agreement provides for revolving credit loans prior to November 1, 1982, not to exceed an aggregate of $125 million at any one time. Under the agreement, a term note may be issued prior to November 1, 1982, in an amount not to exceed $125 million. The proceeds of such term note must be used to repay the then outstanding revolving credit loans, at which time the revolving credit commitment ceases. The term note will be due October 31, 1985, with semi-annual installments commencing April 30, 1983. There were no borrowings under the agreement at October 31, 1978.

In connection with credit lines and borrowing,

the Company maintains average balances with banks, when required, sufficient to compensate the banks for the credit lines. Such compensating balances amounted to $27.2 million and $23.6 million at October 31, 1978 and 1977, respectively, and are not restricted as to withdrawal.

Short-term loans consisted of foreign bank borrowing with a weighted average interest rate of 17.4% at October 31, 1978 and 14.8% at October 31, 1977. Information with respect to short-term loans during the years follows:

	1978	1977
Maximum amount outstanding	$264.1	$221.2
Average amount outstanding	240.3	202.8
Weighted average interest rate	18.6%	16.5%

The weighted average interest rate reflects actual short-term loan interest expense as a percentage of the daily average of short-term loans outstanding during the year.

8. Long-term debt

Long-term debt, less the amount due within one year, consisted of the following at October 31:

	1978	1977
Domestic		
Debentures, less principal amount in treasury: 1978—$25.1; 1977—$25.0		
4.25% due 1982-1988	$ 31.5	$ 31.5
7.30% due 1983-2001	90.6	90.6
9.25% due 1985-2004	150.0	150.0
5% Euro-dollar convertible debentures, due 1979-1988	55.9	59.6
Notes, 8.50% due 1983	50.0	50.0
Notes, 8.25% due 1984-1997	50.0	50.0
Other, 5.38% to 9.00%, due 1979-2008	18.8	13.7
Foreign		
Swiss franc notes		
5.50%, due 1982-87	—	22.5
5.75%, due 1982	67.0	44.9
Canadian dollar debentures, 5.75% to 7.75%, due 1979-1990	22.0	25.4
Payable to banks and others with interest rates ranging from 3.00% to 13.00%, due in installments to 2010	80.3	77.9
	$616.1	$616.1

Principal amounts of long-term debt, net of treasury amounts, payable during the four years ending October 31, 1983 (in millions) are: 1980—$19.3; 1981—$18.2; 1982—$87.1; and 1983—$38.2.

The Euro-dollar convertible debentures may be converted into 1,901,821 shares of common stock at the conversion price of $29.375 per share at any time prior to maturity on May 1, 1988.

Interest and debt expense on long-term debt was $48.2 million in 1978 and $47.9 million in 1977.

At October 31, 1978, certain current and noncurrent assets were pledged as collateral for $61.7 million of short and long-term borrowing, principally outside the United States.

9. Leases

The Company leases many of its store and warehouse facilities and some transportation and data processing equipment. A substantial portion of the store and warehouse leases are for terms of fifteen to twenty years, contain renewal options, generally for one to three five-year periods, and provide for minimum rents and contingent rents based upon a percentage of sales.

In accordance with Financial Accounting Standards Board Statement No. 13, the Company has capitalized all leases entered into on or after November 1, 1976, which met the criteria for classification as capital leases as defined in the statement. Leases for properties, plants and equipment acquired with the proceeds from industrial revenue bonds have consistently been capitalized. The provisions of the statement were not applied retroactively to other leases entered into prior to November 1, 1976, because the effect of capitalizing them would not be material. Capital leases are accounted for and depreciated as Company-owned facilities and were included in properties, plants and equipment at October 31, as follows:

	1978	1977
Land and improvements	$ 1.2	$ 1.2
Buildings and building fixtures	34.5	36.4
Machinery and equipment	73.5	72.1
	109.2	109.7
Less accumulated depreciation	68.7	61.6
	$ 40.5	$ 48.1

Future minimum lease payments at October 31, 1978, are summarized below:

Years ending October 31	Capital leases	Operating leases
1979	$ 10.0	$ 40.7
1980	10.8	36.0
1981	9.1	31.1
1982	7.4	26.5
1983	7.0	22.7
After 1983	61.3	166.0
Total minimum lease payments	105.6	$323.0
Less estimated executory costs	2.2	
Net minimum lease payments	103.4	
Less estimated amounts representing interest	30.5	
Present value of net minimum lease payments	72.9	
Less current obligations reflected in balance sheets as accounts payable	4.9	
Long-term capital lease obligations	$ 68.0	

Net rent expense for operating leases was $49.7 million in 1978 and $49.3 million in 1977, after deducting sublease rents of $4.6 million and $4.0 million, respectively. Contingent rents included in net rent expense were $3.5 million in 1978 and $2.6 million in 1977.

At October 31, 1978, future minimum sublease rents from noncancelable operating leases amounted to $7.4 million.

Interest and debt expense on capital lease obligations was $5.2 million in 1978 and $4.1 million in 1977.

10. Issuance of preferred stock by Canadian subsidiary

Forty thousand shares of Canadian $1,000 par, non-voting, floating rate preferred stock of Firestone Canada Inc. were issued in June, 1978 to a Canadian bank. Dividends are cumulative and payable at the end of each quarter at a rate of 52% of the bank's current minimum lending rate plus ¾%.

The stock must be redeemed in ten years but is redeemable after three years at the option of the issuer at par value plus accrued dividends. Sinking fund payments begin in the sixth year.

The preferred stock is included in the balance sheets as minority interests in subsidiary companies and dividends are included as minority interests in income of subsidiary companies in the statements of income.

11. Research and development

Research and development expenses amounted to $65.2 million in 1978 and $60.3 million in 1977.

12. Pension plans

The majority of the Company's employees are covered by various domestic and foreign contributory and non-contributory pension plans. The Company funds pension cost accrued (normal cost and prior service cost), as actuarially determined based upon various factors which are adjusted periodically for experience. The cost of pension plans was $74.4 million in 1978 and $72.0 million in 1977.

Based upon the October 31, 1978 actuarial information for domestic plans, the unfunded prior service cost (being amortized over 25 years) was $407.6 million, and the actuarially determined value of vested benefits exceeded the market value of pension trust fund net assets by $141.1 million.

Changes in pension trust fund net assets, at market value, available for benefits under domestic plans for the years ended October 31, were as follows:

	1978 (Unaudited)	1977
Net assets at beginning of year	$626.7	$601.7
Company contributions	63.3	64.0
Employee contributions	.1	1.5
Interest and dividend income	43.2	37.5
Net realized and unrealized investment losses	(6.0)	(31.6)
Dividends from insured annuity contracts	.9	1.5
Benefits paid to participants	(50.2)	(47.9)
Net assets at end of year, at market	$678.0	$626.7
Net assets at end of year, at cost	$729.0	$675.9

13. Incentive plans

Incentive compensation is provided for officers and other key personnel who, in the opinion of the incentive compensation committee, make important contributions to the efficient and profitable operation of the Company. The amount available for incentive compensation is based on the Company's performance, with part distributed in cash and part in the Company's common stock purchased on the open market. Employee stock purchase plans enable employees to invest in the Company's common stock also purchased on the open market. Provisions for incentive compensation and the Company's participation in stock purchases by employees were $.8 million and $3.0 million in 1978 and $2.4 million and $2.7 million in 1977, respectively.

At October 31, 1978, there were 2,601,612 shares reserved for issuance under the Employees' Incentive Stock Option Plan of 1970. The Plan provides for granting qualified stock options to key employees to purchase shares of the Company's common stock at prices not less than 100% of the market price on the date an option is granted. The aggregate number of shares optioned to any employee may not exceed 2% of the total number of shares originally reserved. The Plan further provides that, unless otherwise provided in an option agreement, options granted under the Plan become exercisable in installments of 25% at the end of the first year after grant and 25% at the end of each succeeding year. The term of a qualified option may not exceed five years. The period during which options may be granted ends on October 31, 1979.

Options granted in 1978 become fully exercisable on March 28, 1979 and expire on March 29, 1981. All other options outstanding at October 31,

1978, expired on December 1, 1978. Additional information relating to options for the years ended October 31, 1978 and 1977, is set forth below:

	Number of shares	Option price: Average per share	Option price: Total	Corresponding quoted market price: Average per share	Corresponding quoted market price: Total
Options granted:					
1978	509,100	$14.06	$ 7.2	$14.06	$ 7.2
1977	—	—	—	—	—
Options exercised:					
1978	7,750	$14.07	$ .1	$15.57	$ .1
1977	104,564	16.37	1.7	22.49	2.4
Options outstanding:					
1978	774,914	$14.06	$10.9	$14.06	$10.9
1977	366,159	15.38	5.6	15.37	5.6

No options became exercisable in 1978 or 1977. Options canceled were: 1978—92,595; 1977—74,935. Options exercisable at October 31 were: 1978—269,814; 1977—366,159. Shares available for future grants at October 31 were: 1978—1,826,698; 1977—2,243,203. The Company makes no charge against income with respect to options.

14. Provision for loss on phase-out of facilities

In April, 1978 a charge of $110 million ($73 million after income taxes) was made against income for loss on phase-out of facilities covering various payments to employees ($50 million), the disposition of fixed assets ($43 million) and other costs associated with the phasing out of operations ($17 million), including operating losses during the phase-out period. The phase-out plan terminated bias passenger tire production in Akron, Ohio and all tire production at plants in Calgary, Canada, and Pratteln, Switzerland, during 1978 and provided for the phasing out of additional domestic bias passenger tire capacity.

The accrued liability for phase-out of facilities at October 31, 1978, comprised:

Amount accrued in April, 1978	$110.0
Less amounts charged thereto	42.4
Accrued liability at October 31, 1978 (current—$14.2; non-current—$53.4)	$ 67.6

15. Provision for loss on tire recall

On July 7, 1978, the National Highway Traffic Safety Administration (NHTSA) of the U.S. Department of Transportation advised the Company that it had made an initial determination that a defect relating to motor vehicle safety existed in Steel Belted Radial 500 tires and private brands manufactured by the Company with the same internal construction as the Steel Belted Radial 500 tire.

On November 29, 1978, the Company and NHTSA signed a final agreement to conclude NHTSA's investigation of the Company's steel radial tires. The agreement provides, among other things, that the Company recall for free replacement all 5-rib Steel Belted Radial 500 tires (including private brands of the same or similar internal construction) sold new on or after September 1, 1975, and manufactured prior to January 1, 1977, and all 7-rib Steel Belted Radial 500 tires (including private brands of the same or similar internal construction) and TPC tires sold new on or after September 1, 1975 and manufactured prior to May 1, 1976. The agreement also provides that the Company offer to owners of Steel Belted Radial 500 tires, the same or similar private brand tires, and TPC tires purchased prior to September 1, 1975, the opportunity to purchase a Firestone 721 or other comparable Firestone tire at one-half the regular retail price of the replacement tire.

A provision for loss on tire recall of $234.0 million ($147.4 million after income taxes) was charged against income in October, 1978. The provision represents management's estimate of the cost of fulfilling the Company's obligations under the agreement with NHTSA and the Company's program of cash refunds to those customers who have received an adjustment on tires that would otherwise have been subject to recall and free replacement.

In determining the amount of the provision, management estimated the number of recalled tires to be returned, the cost of replacement tires and all other recall related costs. However, because the number of tires to be returned may vary from management's estimate, it is possible that the final cost of the recall may differ from the amount provided in 1978. Any adjustments required would be reflected in income in the future.

The accrued liability for tire recall at October 31, 1978, comprised:

Amount accrued in October, 1978	$234.0
Less amounts charged thereto	6.8
Accrued liability at October 31, 1978	$227.2

16. Contingent liabilities

During the fourth fiscal quarter, fourteen purported class actions against the Company were commenced in various state and federal courts. The named plaintiffs are requesting, on behalf of claimed classes of consumers, eight national in scope and six statewide, various forms of injunctive and monetary relief, including punitive

damages, as a result of the Company's having manufactured and sold allegedly defective Steel Belted Radial 500 and other steel belted radial passenger tires.

The complaints in these cases define the classes of persons sought to be represented to include very broad and heterogeneous memberships with various kinds of potential claims under the National Traffic and Motor Vehicle Safety Act of 1966, the Magnuson-Moss Warranty Act, and under state warranty, consumer protection and other laws.

In eleven of the fourteen actions the complaints pray for actual or compensatory damages ranging from amounts to be determined at trial up to $1 billion. Thirteen of the complaints request punitive damages ranging to as much as $1 billion on behalf of the class sought to be represented. Many of the complaints also include requests for equitable relief in the form of rescission of tire purchase transactions, recall and free replacement of the tires (see Note 15 for information with respect to tire recall), and other types of relief.

There are several thousand individual claims pending against the Company for damages arising out of the alleged malfunction of tires, truck wheel components, and other products manufactured by the Company. Several hundred of these claims are the subject of pending litigation, and substantial compensatory damages for wrongful death, personal injuries and property damage are sought in a number of them, as well as punitive damages.

The Company is a defendant in a purported class action which seeks, among other things, recovery for losses by stockholders who purchased the Company's common stock between December 1975 and July 1978 by reason of the decline in market price for such stock alleged to result from the Company's alleged failure to make proper disclosure of, among other things, the steel belted radial passenger tire situation. A grand jury investigation into the Company's income tax returns for a period commencing November 1, 1965, is in progress; and if an indictment were to be returned, it is likely that a civil fraud penalty would be assessed against the Company. There are various other contingent liabilities, some of which are for substantial amounts, arising out of suits and claims related to other aspects of the conduct of the business and based upon various legal theories.

Due to the uncertainties pertaining to the above described litigation, the eventual outcome cannot be predicted and ultimate liability cannot be reasonably estimated although the final disposition could be very costly to the Company. Nevertheless, management, including the General Counsel, believes that these matters will not have a material adverse effect on the Company's consolidated financial position.

17. Quarterly information (unaudited)

Quarter ended	Net sales	Gross profit	Income taxes	Net income (loss)
1978				
January 31	$1,062.9	$202.6	$14.6	$ 7.4
April 30	1,234.2	242.3	(9.7)	(44.4)
July 31	1,215.9	226.5	23.7	15.9
October 31	1,365.1	248.0	(55.8)	(127.2)
1977				
January 31	$ 978.0	$204.7	$24.6	$23.3
April 30	1,129.6	241.1	36.9	39.3
July 31	1,111.0	217.8	22.4	22.3
October 31	1,208.3	228.3	19.0	25.3

	Per share of common stock			
Quarter ended	Net income (loss)	Dividend	Price range* High	Low
1978				
January 31	$.13	$.275	$17¼	$14⅜
April 30	(.77)	.275	15⅝	12⅞
July 31	.27	.275	15⅛	12¾
October 31	(2.21)	.275	14¼	11⅞
1977				
January 31	$.41	$.275	$24¼	$21½
April 30	.68	.275	23⅜	18¾
July 31	.39	.275	21	18¼
October 31	.44	.275	18⅞	15⅛

*Composite market price, principally New York Stock Exchange.

Net loss in the quarter ended April 30, 1978, included provision for loss on phase-out of facilities, net of income taxes, of $73.0 million. Net loss in the quarter ended October 31, 1978, included provision for loss on tire recall, net of income taxes, of $147.4 million and a decrease in net loss of approximately $4.5 million due to the partial liquidation of inventories valued using the LIFO method. Fourth quarter results also included foreign currency exchange losses of $15.1 million for 1978 and $6.4 million for 1977.

18. Replacement cost data (unaudited)

The Company is required to include in its annual report to the Securities and Exchange Commission (Form 10-K) information based on current replacement cost for certain assets and expenses. This data is intended to partially show the effect of inflation on Company operations.

The impact of inflation on cost and capital requirements is a worldwide concern. The Company is constantly searching for ways to increase pro-

ductivity and reduce costs to offset inflationary cost increases. These efforts, plus price increases realized within competitive and government restraints, have generally been successful over the years in maintaining gross profit margins. In the past several years, however, margins have been reduced due to accelerated inflation rates, highly competitive markets and government price controls.

A copy of the annual report to the Securities and Exchange Commission on Form 10-K may be obtained after February 1, 1979, by writing to the Stockholder Relations Department, The Firestone Tire & Rubber Company, 1200 Firestone Parkway, Akron, Ohio 44317.

19. Proposed merger between The Firestone Tire & Rubber Company and Borg-Warner Corporation

On November 28, 1978, the Company and Borg-Warner Corporation agreed to consider a merger of the two companies on a basis which contemplates that the Company and Borg-Warner would operate as separate entities under a newly formed holding company.

Holders of the common stock of the Company would receive securities senior to the common stock of the holding company. Such securities would exercise less than half the voting power of the holding company. Holders of the common stock of Borg-Warner would receive common stock of the holding company.

The proposed merger plan is subject to the approval of a definitive agreement by the boards of directors and stockholders of both companies. The preparation of a definitive agreement, its approval by government regulatory bodies and its submission for approval to directors and stockholders are expected to be accomplished in the next several months.

20. Other financial matters

Refer to the pages indicated for information with respect to:

Planned capital expenditures for 1979 . . . . . Page 3
Business segment information (exclusive of "Industry segment operations—1978 compared with 1977"). . . . . Pages 22-23

Management responsibility for financial statements

The management of the Company is responsible for the integrity and objectivity of financial statements. Fulfilling this responsibility, management maintains a highly developed system of internal control and supports an extensive program of internal audit. The Company further seeks to assure the quality of its reporting by careful selection of its managers, by organization structures that provide an appropriate division of responsibility and by communicating policies and standards throughout the organization.

The Board of Directors pursues its responsibilities for the accompanying financial statements through its audit committee consisting of four outside directors. The committee meets periodically with management, the internal auditors and the independent auditors to assure that each is carrying out its responsibilities. The internal auditors and the independent auditors have full and free access to and periodically meet with the audit committee with and without other management representatives present.

The accompanying financial statements have been examined by Coopers & Lybrand, independent certified public accountants, and their report follows.

Report of independent certified public accountants

To the Stockholders and Board of Directors,
The Firestone Tire & Rubber Company:

We have examined the balance sheets of The Firestone Tire & Rubber Company and consolidated subsidiaries at October 31, 1978 and 1977, and the related statements of income, stockholders' equity, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of The Firestone Tire & Rubber Company and consolidated subsidiaries at October 31, 1978 and 1977, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

In addition, we have read the financial information included in the "Financial highlights" on page 1, the graphs on page 19 and the "summary of operations" and "financial position at year end" on page 20 of this annual report, have compared it to data taken from the audited financial statements, subjected it to audit procedures, and verified its mathematical accuracy. In our opinion, such data is fairly stated in relation to the audited financial statements taken as a whole.

Coopers & Lybrand

Cleveland, Ohio
December 18, 1978

Firestone Facilities

NORTH AMERICA

UNITED STATES

ARKANSAS

Magnolia	Coated Fabrics, Fuel Cells
Prescott	Radiator and Brake Hose
Russellville	Tubes

CALIFORNIA

Los Angeles	Tires, Industrial Products
Salinas	Tires

GEORGIA

Albany	Tires
Thomasville	Polyurethane Foam Products

ILLINOIS

Bloomington	Tires
Decatur	Tires
Quincy	Wheels, Rims, Metal Products

INDIANA

Elkhart	Polyurethane Foam Products
Noblesville	Molded and Extruded Industrial Products, Air Springs

IOWA

Des Moines	Tires

KANSAS

Abilene	Farm Wagons

KENTUCKY

Bowling Green	Tire Cord Fabric
Danville	Steelcord, Bead Wire
Henderson	Truck Wheels, Rims

LOUISIANA

Baton Rouge	Vinyl Resins
Lake Charles	Synthetic Rubber and Latex

MARYLAND

Perryville	Vinyl Resins, Compounds
Salisbury	Vinyl Film Printing, Embossing and Laminating

MICHIGAN

Bad Axe	Seat Belts
Imlay City	Seat Belts, Bicycle Accessories
Romeo	Bus Bumper, Parts Processing
Ubly	Seat Belts
Washington	Metal Stampings
Wyandotte	Wheels, Rims

MISSISSIPPI

Louisville	Seat Belts

NEW JERSEY

West Caldwell	Vinyl Film Printing, Embossing and Laminating

NORTH CAROLINA

Conover	Polyurethane Foam Products
Gastonia	Tire Cord Fabric
Wilson	Tires

OHIO

Akron	Tires, Synthetic Rubber and Latex, Defense Products
Barberton	Tires
Columbiana	Tire Test Center
Dayton	Tires
† Ravenna	Shell Loading and Storage

OKLAHOMA

Oklahoma City	Tires

PENNSYLVANIA

Corry	Polyurethane Foam Products
Pottstown	Tires, Vinyl Resins, Film and Sheeting, Synthetic Rubber and Latex

SOUTH CAROLINA

Bennettsville	Tire Cord Fabric
Spartanburg	Metal Products, Stampings, Beverage Containers

TENNESSEE

Memphis	Tires, Reclaim Rubber
Milan	Polyurethane Foam Products
Nashville	Tires
Newport	Molded Industrial Products, Semi-Pneumatic Tires

TEXAS

Orange	Butadiene, Synthetic Rubber
Fort Stockton	Tire Test Center

VIRGINIA

Hopewell	Synthetic Fibers, Resin

PUERTO RICO

San Juan	Polyurethane Foam Products

CANADA

ONTARIO

Hamilton	Tires, Tubes
London	Wheels, Rims, Beverage Containers
Midland	Metal Trim, Stampings
Penetanguishene	Seat Belts
Whitby	Tires
Woodstock	Tire Cord Fabric, Synthetic Fibers

QUEBEC

Joliette	Tires

†Operated for U.S. Government

EUROPE AND UNITED KINGDOM

FRANCE

Bethune	Tires, Tubes
Port Jerome	Synthetic Rubber and Latex

ITALY

Bari	Tires, Tubes
Rome	Research and Development Center

PORTUGAL

Alcochete	Tires, Tubes

SPAIN

* Bilbao	Tires, Tubes, Foam Rubber, Tire Cord Fabric, Metal Products, Industrial Products
* Burgos	Tires, Tubes, Wheels
* Puente San Miguel	Tires, Tubes
* Torrelavega	Tires, Tubes

SWEDEN

Boras	Tires, Tubes
Viskafors	Tires, Tubes

UNITED KINGDOM

ENGLAND

Brentford	Tire, Tubes
* Southampton	Synthetic Rubber

WALES

Treherbert	Industrial Products
Wrexham	Tires, Tubes

LATIN AMERICA

ARGENTINA

Buenos Aires	Tires, Tire Cord Fabric

BRAZIL

Itubera	Rubber Plantation and Processing
Rio de Janeiro	Tires, Tubes
Sao Paulo	Tires, Tubes, Tire Cord Fabric, Industrial Products

CHILE

Coquimbo	Tires, Tubes

COSTA RICA

San Jose	Tires, Tubes

GUATEMALA

Retalhuleu	Experimental Rubber Plantation

MEXICO

* Cuernavaca	Tires, Tubes
* Mexico City	Tires, Tubes

URUGUAY

* Montevideo	Tires, Tubes

VENEZUELA

Valencia	Tires, Tubes

AFRICA

GHANA

Bonsaso	Tires, Tubes
Takoradi	Rubber Plantation

KENYA

Nairobi	Tires, Tubes

LIBERIA

Cavalla	Rubber Plantation and Processing
Harbel	Rubber Plantation and Processing

SOUTH AFRICA

Brits	Tires, Tubes
Port Elizabeth	Tires, Tubes, Industrial Products

TUNISIA

Bizerte	Tires, Tubes

ASIA

INDIA

* Bareilly	Synthetic Rubber
Bombay	Tires, Tubes

JAPAN

* Miyazaki	Tires, Tubes
* Osaka	Tires, Tubes

MALAYSIA

Butterworth	Rubber Purchasing and Preparation

REPUBLIC OF PHILIPPINES

Manila	Tires, Tubes
Makilala	Rubber Plantation

SINGAPORE

Singapore	Rubber Purchasing and Preparation

THAILAND

Bangkok	Tires, Tubes

OCEANIA

AUSTRALIA

Melbourne	Industrial Products
Sydney	Tires, Tubes, Industrial Products

NEW ZEALAND

Christchurch	Tires, Tubes

*Firestone Associated Factory

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